

BNM/RH/GL 007-18	Islamic Banking & Takaful Department	Capital Adequacy Framework for Islamic Banks (CAFIB) - Disclosure Requirements (Pillar 3)
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PART A OVERVIEW

1. Introduction

- 1.1 This guideline forms part of the Capital Adequacy Framework for Islamic Banks (CAFIB) that specifies the disclosure requirements for:
- (i) credit risk under the standardised approach;
 - (ii) market risk under the standardised and internal models approach; and
 - (iii) operational risk under the basic indicator or standardised approach.
- 1.2 Improved transparency in the financial markets, underpinned by high quality and timely market disclosures, will enhance market discipline as well as market efficiency and public confidence. The Pillar 3 disclosure requirements aim to enhance transparency by setting the minimum requirements for market disclosures of information on the risk management practices and capital adequacy of Islamic banks. This will enable market participants to obtain key information on risk exposures, risk assessment processes, the capital structure and capital adequacy of Islamic banks.
- 1.3 The enhanced disclosures will also strengthen incentives for Islamic banks to implement robust risk management systems to identify, measure, monitor and control risks. This is achieved by requiring Islamic banks to provide detailed information on their risk exposures and how these risks are managed and how they relate to capital.
- 1.4 In general, disclosures should be consistent with the scale, complexity and sophistication of Islamic banks' approaches to risk management and capital adequacy assessments. Accordingly, more disclosures would be expected of Islamic banks using the more sophisticated approaches under the CAFIB such as the IRB approach.

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- 1.5 The disclosures required will include qualitative and quantitative disclosures with respect to credit risk, market risk, operational risk, rate of return risk in the banking book, management of Profit Sharing Investment Account (PSIA) and key aspects of Shariah governance.
- 1.6 The disclosure requirements listed in the various tables under this guideline represent the minimum standards expected by the Bank. Islamic banks are encouraged to make more extensive disclosures. Some illustrative examples on quantitative disclosures have been provided in the appendices as a guide and may serve as a base for Islamic banks' disclosures. Islamic banks should disclose the information in the format that best represent their risk exposures and risk management practices. The Bank may require more extensive disclosures where warranted, to promote comparability among Islamic banks in the same peer group or to reflect changing accounting and disclosure practices.
- 1.7 The Bank is aware that the disclosure requirements under this guideline may have similarities with other disclosure requirements such as those required under Financial Reporting Standards 7, 'Financial Instruments: Disclosures' (FRS 7), Guidelines on Financial Reporting for Islamic Banks (BNM/GP8-i) and listing requirements. To the extent that any of the disclosures required in this guideline are substantially similar to the abovementioned disclosure requirements, Islamic banks may rely on those disclosure requirements to meet the requirements of this guideline.
- 1.8 Where more extensive disclosures are statutorily required or as required under FRS 7, Islamic banks shall comply with such disclosure requirements.

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2. Applicability

2.1 This guideline is applicable to the following institutions:

- (i) All Islamic banks licensed under section 3(4) of the Islamic Banking Act 1983 (IBA). These institutions will hereafter referred to as Islamic banks; and
- (ii) All banking institutions participating in the Islamic Banking Scheme licensed under the Banking and Financial Institutions Act 1989 (BAFIA). These institutions will hereafter referred to as Islamic windows.

3. Legal Provisions

3.1 This guideline is issued pursuant to sections and 53A of IBA and section 126 of BAFIA.

4. Effective Date of Implementation

4.1 The full disclosure requirements under this guideline shall apply to and be published together with the annual financial reports for the annual reporting periods beginning on and after 1 January 2010 and is illustrated as follows:

<u>Financial year beginning</u>	<u>First set of full CAFIB Disclosure</u>
1 January 2010	31 December 2010
1 April 2010	31 March 2011

4.2 Thereafter Islamic banks shall make semi-annual disclosures based on the full disclosure requirements under this guideline in accordance with paragraph 8.1.

4.3 Prior to the effective date for full disclosure requirements under this guideline, Islamic banks shall disclose the following in the financial reports:

Annual and Half-Yearly Reports	Quarterly Reports
<ul style="list-style-type: none"> Statement that the capital ratios have been computed in accordance with the CAFIB 	<ul style="list-style-type: none"> Statement that the capital ratios have been computed in accordance with the CAFIB
<ul style="list-style-type: none"> Items 2 to 6 in table 2 	<ul style="list-style-type: none"> Item 2 in table 2
<ul style="list-style-type: none"> Items 2 to 5 in table 3 	<ul style="list-style-type: none"> Items 2 to 5 in table 3
<ul style="list-style-type: none"> Item 2 in table 5 	
<ul style="list-style-type: none"> Item 2 in table 7 	
<ul style="list-style-type: none"> Item 2 in table 9 	

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PART B GENERAL REQUIREMENTS

5. Disclosure Policy

- 5.1 Islamic banks must have a clearly defined disclosure policy in writing, approved by the board of directors that addresses the approach to determining the content (including the appropriateness), materiality¹, frequency of public disclosures and internal controls over the disclosure process. These internal controls must include a process for verifying and reviewing the accuracy of the disclosures.
- 5.2 The verification of disclosures must be performed by a competent independent internal party and shall cover all disclosure items required under this guideline. Such verification should ensure that the Islamic banks disclosures are consistent with the manner in which the institution assesses and manages its risks.
- 5.3 The Bank does not require the disclosures on CAFIB to be audited by external auditors. Nevertheless, Islamic banks shall be responsible to ensure that the disclosures are accurate, complete and not misleading. An attestation to this effect shall be provided by the Chief Executive Officers of the Islamic banks as part of the CAFIB disclosure. The Bank reserves the right to require an independent audit by an external auditor at the Islamic banks' expense if it has reason to believe that any disclosure is incorrect, incomplete or misleading.

6. Medium and Location of Disclosure

- 6.1 The disclosures on CAFIB shall be reflected in a separate report in the annual and the semi annual financial reports, after the notes to the financial statements.

¹ Information is regarded material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making investment or other economic decisions.

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- 6.2 In addition, the CAFIB disclosures must be made available on the Islamic banks' external website. This shall also include disclosure requirements in paragraphs 8.1 and 8.2.
- 6.3 For Islamic windows, the disclosure requirements specified in paragraph 9.2 shall be disclosed separately in the Risk Weighted Capital Adequacy Framework (RWCAF) disclosure report of banking institutions.

7. Comparative Information

- 7.1 Comparative information regarding quantitative disclosures for the preceding financial year must be reported.
- 7.2 Requirement in paragraph 7.1 is not applicable under the following circumstances:
- (i) Adoption and disclosure of CAFIB for the first time where there are no corresponding disclosures in the previous reporting period; and
 - (ii) For Islamic banks that adopt a different approach (subject to approval obtained from the Bank) to compute its regulatory capital for credit, market or operational risks from that used in the preceding reporting period.
- 7.3 Where there has been a material restatement of prior period figures, the nature of and the reason for the restatement must be also be highlighted and form part of the disclosure.

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8. Frequency of Disclosure

- 8.1 Full disclosure requirements under this guideline shall be made by Islamic banks on an annual and semi-annual basis except for disclosures under paragraph 10.1 and all qualitative disclosures which may be made on an annual basis if there are no material changes in the interim reporting period.
- 8.2 For quarterly reporting, Islamic banks need to disclose a statement that the capital ratios have been computed in accordance with the CAFIB as well as item (2) in Table 2 and items (2) to (5) in Table 3.

PART C SPECIFIC DISCLOSURE REQUIREMENTS

9. Specific Disclosure Requirements

9.1 The disclosure requirements under this guideline shall apply to all Islamic banks on a consolidated² basis, unless indicated otherwise.

9.2 Islamic windows shall separately disclose the following information in the RWCAF disclosure report of the banking institution:

- (i) Table 2 (Capital Adequacy);
- (ii) Table 3 (Capital Structure), items 1 to 3;
- (iii) Table 14 (Disclosure on Profit Sharing Investment Accounts); and
- (iv) Table 15 (Shariah Governance)

9.3 Islamic banks shall disclose all information set out hereunder.

Table 1: Scope of Application

Type of Disclosure	Item	Disclosure Requirement
Qualitative Disclosures	1.	The name of Islamic bank at the group level which is incorporated in Malaysia to which the CAFIB framework apply.
	2.	An outline of differences in the basis of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group (i) that are fully consolidated, (ii) that are pro-rata consolidated, (iii) equity accounted and (iv) that are given a deduction treatment.
	3.	Any restrictions or other major impediments on transfer of funds or regulatory capital within the group.
Quantitative Disclosures	4.	The names and aggregate amount of capital deficiencies ³ in any subsidiaries that are not included in the consolidation for regulatory purposes (i.e. that are deducted) should also be disclosed.

² As defined under the RWCAF and CAFIB (General Requirements and Capital Components).

³ A capital deficiency is the amount by which actual capital is less than the regulatory capital requirement imposed by a regulatory authority. In the case of a locally incorporated Takaful subsidiary owned by Islamic banks (if any), the capital deficiency to disclosed shall be in reference to the Risk-Based Capital Framework for Takaful (requirement is pending to the issuance of the Framework).

Table 2: Capital Adequacy

Type of Disclosure	Item	Disclosure Requirement
Qualitative Disclosures	1.	A summary discussion on the approach for assessing the adequacy of internal capital levels to support current and future activities.
Quantitative Disclosures	2.	Total Risk Weighted Capital Ratio and Tier 1 capital ratio: <ul style="list-style-type: none"> On a consolidated basis, before and after payment of dividends; On a global⁴ basis, before and after payment of dividends; In respect of each banking subsidiary⁵ before and after payment of dividends; and Before and after the effect of PSIA.⁶
	3.	Risk weighted assets and capital requirements for credit risk: <ul style="list-style-type: none"> The gross credit exposure⁷ by class of exposure, credit exposure after credit risk mitigation and netting, and the corresponding risk weighted assets under the standardised approach. The amount of risk weighted assets absorbed by the PSIA. The amount of risk weighted assets after the effects of PSIA. Refer to (Appendix I)
	4.	Risk weighted assets and capital requirements for market risk: <ul style="list-style-type: none"> The amount of exposures in the trading book and risk weighted assets for market risk under either the Standardised or the Internal Models approach, as applicable The amount of risk weighted assets absorbed by PSIA. The amount of risk weighted assets after the

⁴ Includes the Islamic banks' exposures in local and overseas branch operations, and Labuan banking subsidiaries, for which explicit guarantee has been provided.

⁵ For a significant overseas subsidiary, the disclosures may be based on capital adequacy rules in the overseas jurisdiction, provided that this is disclosed in an explanatory note that includes a brief description of the basis of the calculation and the approach applied to each major risk type in the overseas jurisdiction.

⁶ As specified in the Bank's 'Guidelines on the Recognition and Measurement of Profit Sharing Investment Account as Risk Absorbent'.

⁷ Definition of exposures in this table shall have the same definition as the various categories of exposures under the CAFIB. Gross credit exposure class shall be net of specific impairment provisions and without taking into account the effects of netting and credit risk mitigation. Gross credit exposure shall include on-balance sheet exposures and credit equivalent of off-balance sheet items.

Type of Disclosure	Item	Disclosure Requirement
		effects of PSIA. Refer to (Appendix I)
	5.	Risk weighted assets and capital requirements for operational risk based on either the: <ul style="list-style-type: none"> • Basic indicator approach; or • Standardised approach. Refer to (Appendix I)
	6.	Amount in excess of lowest threshold, risk weighted assets and capital requirements arising from Large Exposure Risk for equity holdings as specified in the Bank's 'Guidelines on Investment in Shares, Interest-in-Shares and Collective Investment Schemes for Islamic banks'. Refer to (Appendix I)

Table 3: Capital Structure

Type of Disclosure	Item	Disclosure Requirement
Qualitative Disclosures	1.	Summary information on the terms and conditions of the main features of all capital instruments, including innovative, complex or hybrid capital instruments.
Quantitative Disclosures	2.	The amount of Tier 1 capital on a global and consolidated basis, with separate disclosure of: <ul style="list-style-type: none"> • Paid up share capital/ Islamic banking fund; • Reserves, including retained earnings; • Minority interests in subsidiaries; • Innovative instruments; • Other capital instruments; • Other amounts deducted from Tier 1 capital, including goodwill and investments.
	3.	The components and total amount of Tier 2 capital on a global and consolidated basis subject to the permitted limit.
	4.	Other deductions from capital on a global and consolidated basis.
	5.	Total eligible capital on a global and consolidated basis.

10. Risk Management

10.1 In general, for each type of risk, Islamic banks must describe their risk management objectives and policies including:

- (i) Strategies and processes for managing those risks;
- (ii) The structure and organisation of the relevant risk management function, including the title or position of board and senior management members that oversee risk management;
- (iii) The scope and nature of risk reporting and measurement systems;
- (iv) Policies for hedging and mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants; and
- (v) A general description of the internal capital adequacy assessment process⁸ including a description of the methodologies used.

10.2 In addition, Islamic banks shall disclose the following additional information for the different risks as described below.

Table 4: Credit Risk (General Disclosure)⁹

Type of Disclosure	Item	Disclosure Requirement
Qualitative Disclosures	1.	In addition to the general disclosures required under paragraph 10.1, the following shall be disclosed: <ul style="list-style-type: none"> • Definitions of past due and impaired financing; and • Description of approaches followed for the determination of individual and collective impairment provisions.
Quantitative Disclosures	2.	Geographic ¹⁰ distribution of credit exposures, broken down in significant areas by major types of gross credit exposure.
	3.	Distribution of exposures by sector or economic purpose, broken down by major types of gross credit exposures.
	4.	Residual contractual maturity breakdown by major types of

⁸ As specified in the 'CAFIB – Supervisory Review Process (Pillar 2)'.

⁹ Table 4 does not apply to equities and securitisation exposures.

¹⁰ This may comprise of individual countries, groups of countries or states within a country. BIs may choose to define the geographical areas based on the way the portfolio is geographically managed. The criteria to allocate loans to geographical areas should be specified.

Type of Disclosure	Item	Disclosure Requirement
		gross credit exposures.
	5.	For each sector or economic purpose: <ul style="list-style-type: none"> • Amount of impaired financing, advances and other loans and past due financing, provided separately; • Individual and collective impairment provisions; and • Charges for individual impairment provision and write offs during the period.
	6.	Amount of impaired financing, advances and other loans and past due financing provided separately and broken down by significant geographic areas. The amounts of individual and collective impairment provision related to each geographical area ¹¹ .
	7.	Reconciliation of changes financing impairment provisions ¹² .

Table 5: Credit Risk (Disclosures for portfolios under the Standardised Approach)

Type of Disclosure	Item	Disclosure Requirement
Qualitative Disclosures	1.	For portfolios under the standardised approach: <ul style="list-style-type: none"> • Names of External Credit Assessment Institution (ECAIs) used, plus reasons for any changes; • Types of exposure for which each ECAI is used; • A description of the process used to map ECAI issuer ratings or comparable ECAI issue ratings, as the case may be, to a Islamic banks' exposures in the banking book; and • Where applicable, the alignment of the alphanumeric scale of each ECAI used with the relevant risk weights.¹³

¹¹ The portion of collective impairment provision that is not allocated to a geographical area should be disclosed separately.

¹² The reconciliation should show separately, individual and collective impairment provisions and the information disclosed should comprise a description of the type of impairment provision, the opening balance of the impairment provision, charge offs taken against the impairment provision during the period, amounts set aside for estimated probable financing losses during the period, any other adjustments including transfers between impairment provisions and the closing balance of the impairment provision. Charge offs and recoveries that have been taken directly to the income statement should be disclosed separately.

¹³ This information should be disclosed if standard risk weights used are different from the CAFIB, in the case of overseas subsidiaries where the overseas regulator uses a different risk weight for rating by its local ECAIs.

Type of Disclosure	Item	Disclosure Requirement
Quantitative Disclosures	2.	Disclosure by risk weights (including deducted exposures) of: <ul style="list-style-type: none"> All rated and unrated exposure amounts after risk mitigation; (Refer to Appendix II) Credit exposures under Specialised Financing/Investment subject to supervisory slotting criteria. (Refer to Appendix II)
	3.	Disclosure of rated and unrated exposures according to ratings by ECAs. (Refer to Appendix IIIa to IIIc)

Table 6: Credit Risk Mitigation (CRM) Disclosures under the Standardised Approach

Type of Disclosure	Item	Disclosure Requirement
Qualitative Disclosures	1.	The general qualitative disclosure requirement with respect to CRM required under paragraph 10.1 shall include: <ul style="list-style-type: none"> Policies and processes for, and indication of the extent to which the Islamic banks make use of, on and off balance sheet netting; Policies and processes for collateral valuation and management; A description of the main types of collateral taken by the Islamic banks; The main types of guarantor and their creditworthiness; and Information about (market or credit) risk concentrations within the mitigation taken.
Quantitative Disclosures	2.	For each separately disclosed category of exposures ¹⁴ including off balance sheet items under the standardised and/or IRB approach, the total exposure (after, where applicable, eligible netting benefits) that is covered by: <ul style="list-style-type: none"> Eligible guarantees; and Eligible collateral after the application of haircuts allowed under the CAFIB. (Refer to Appendix IV)

¹⁴ Definition of exposures in this table shall have the same definition as the various categories of exposures under the CAFIB.

Table 7: General Disclosure for Off-balance Sheet exposures and Counterparty Credit Risk (CCR)

Type of Disclosure	Item	Disclosure Requirement
Qualitative Disclosures	1.	<p>In relation to general disclosures required under paragraph 10.1, Islamic banks shall disclose:</p> <ul style="list-style-type: none"> • Credit limits for counterparty credit exposures for over-the-counter (OTC) derivative transactions and sales and buy-back agreement related transactions (SBBA)¹⁵ booked in its trading and banking book; • The policies for securing collateral and establishing credit reserves; and • A discussion of the impact of the amount of collateral the Islamic banks would have to provide given a credit rating downgrade.
Quantitative Disclosures	2.	<p>Islamic banks shall disclose:</p> <ul style="list-style-type: none"> • The principal amount, the gross positive fair value of contracts, credit equivalent amount, and risk weighted asset of derivative contracts; and • The principal amount, credit equivalent amount and risk weighted asset of off-balance sheet items. <p>(Refer to Appendix V)</p>

¹⁵ Refers to Islamic repurchase agreement (Repo-i) transaction whereby a party (SBBA seller) sells Islamic securities at an agreed price to the other party (SBBA buyer) and subsequently the SBBA buyer and SBBA seller enter into another agreement whereby the former promises to sell and the latter to buy back the securities on a specified future date and at an agreed price.

Table 8: Securitisation Disclosures under the Standardised Approach

Type of Disclosure	Item	Disclosure Requirement
Qualitative Disclosures (banking and trading book positions)	1.	<p>In addition to the general disclosures required under paragraph 10.1, Islamic banks should include of the following:</p> <ul style="list-style-type: none"> • The Islamic banks' objectives in relation to securitisation activity, including the extent to which these activities transfer credit risk of the underlying securitised exposures away from the Islamic banks to other entities; • The nature of other risks (e.g. liquidity risk) inherent in securitised assets; • The roles played by the Islamic banks in the securitisation process¹⁶ and an indication of the extent of the Islamic banks' involvement in roles; • A description of the processes in place to monitor changes in the credit and market risk of securitisation exposures (e.g. how the behaviour of the underlying assets impacts securitisation exposures); and • A description of the Islamic banks' policy governing the use of credit risk mitigation to mitigate the risks retained through securitisation exposures.
	2.	<p>A list of:</p> <ul style="list-style-type: none"> • The types of special purpose vehicles (SPVs) that the Islamic bank, as sponsor¹⁷, uses to securitise third party exposures. Indicate whether the Islamic bank has exposure to these SPVs, either on or off balance sheet; and • Affiliated entities i) that the Islamic bank manages or advises and ii) that invest either in the securitisation exposures that the Islamic bank has securitised or in SPVs that the Islamic bank sponsors.
	3.	<p>Summary of the Islamic banks' accounting policies for securitisation activities, including:</p> <ul style="list-style-type: none"> • whether the transactions are treated as sales or financing; • recognition of gain on sale;

¹⁶ e.g. originator, investor, servicer, provider of credit enhancement, sponsor, liquidity provider, swap provider or protection provider.

¹⁷ Islamic banks would generally be considered a 'sponsor' if it, in fact or in substance, managed or advises the programme, places securitised into the market, or provides liquidity and/or credit enhancements. The programme may include, for example asset backed commercial paper (ABCP) conduit programmes and structured investment vehicles.

Type of Disclosure	Item	Disclosure Requirement
		<ul style="list-style-type: none"> • methods and key assumptions for valuing retained or purchased positions, including any significant changes in methods and key assumptions since the last reporting period and the impact of such changes; • how exposures intended to be securitised (e.g. in the pipeline or warehouse) are valued and whether they are recorded in the banking book or in the trading book; and • policies for recognising liabilities on the balance sheet for arrangements that could require the Islamic banks to provide financial support for securitised assets.
	4.	Names of ECAIs used for securitisations and the types of securitisation exposure for which each agency is used.
	5.	An explanation of significant changes to any of the quantitative information (e.g. amounts of assets intended to be securitised, movement of assets between banking book and trading book) since the last reporting period.
Quantitative Disclosures (trading and banking book positions)	6.	The total outstanding exposures securitised ¹⁸ by the Islamic banks, broken down into traditional securitisation by exposure type, ^{19 20} and shown separately for securitisations of third-party exposures for which the Islamic bank acts only as sponsor. (Refer to Appendix VI)
	7.	For exposures securitised by the Islamic banks ²¹ : <ul style="list-style-type: none"> • The amount of impaired/past due assets securitised; and • Losses recognised by the Islamic banks during the current period²² broken down by exposure type. (Refer to Appendix VI)
	8.	Summary of current year's securitisation activity ²³ , including the amount of exposures securitised (by

¹⁸ Exposure securitised in this context include underlying exposures originated by the Islamic banks, whether generated by the Islamic banks or purchased into the balance sheet from third parties and third party exposures included in sponsored schemes. Securitisation transactions (including exposures originally on the Islamic banks' balance sheet and underlying exposures acquired by the Islamic banks from third party) in which the originating Islamic bank does not retain any securitisation exposure should be shown separately but need only be reported for the year of inception.

¹⁹ By type of underlying asset (e.g. credit cards, mortgage financing, auto, etc.)

²⁰ Islamic banks are required to disclose and differentiate securitisation exposures where the Islamic bank is as an originating bank and exposures where the Islamic bank was not involved as an originating bank.

²¹ Islamic banks are required to disclose exposures regardless of whether there is a capital charge under Pillar 1.

²² E.g. charge offs/allowances (if the assets remain on the bank's balance sheet)

Type of Disclosure	Item	Disclosure Requirement
		exposure type) and recognised gain or loss on sale by asset type. (Refer to Appendix VII)
Quantitative Disclosures (banking book positions)	9.	Aggregate amount of on and off balance sheet securitisation exposures retained or purchased ²⁴ , broken down by: <ul style="list-style-type: none"> • exposure type; • meaningful number of risk weight bands; and • exposures that are deducted entirely from capital. (Refer to Appendix VIII)
Quantitative Disclosures (trading book positions)	11.	Islamic banks should disclose separately the aggregate amount of securitisation exposures retained or purchased subject to market risk capital charge and the corresponding risk weighted asset broken down by exposure type. (Refer to Appendix IX)

²³ This shall also include securitisation transactions where the Islamic bank does not retain any securitisation exposures. Where relevant, Islamic banks should differentiate between exposures resulting from activities

²⁴ Securitisation exposures include but are not restricted to, securities, liquidity facilities, other commitments and credit enhancement such as, cash collateral accounts and other subordinated assets.

Table 9: Market Risk (Disclosures for portfolios under the Standardised Approach)

Type of Disclosure	Item	Disclosure Requirement
Qualitative Disclosures	1.	The general qualitative disclosures required under paragraph 10.1, including the portfolios covered by the standardised approach.
Quantitative Disclosures	2.	The risk weighted assets and capital requirements disclosed separately for: <ul style="list-style-type: none"> • Benchmark rate risk; • Equity position risk; • Foreign exchange risk; • Commodity risk; • Options risk; and • Inventory risk (Refer to Appendix I)

Table 10: Market Risk Disclosures under the Internal Models Approach (IMA) for Trading Book Portfolio

Type of Disclosure	Item	Disclosure Requirement
Qualitative Disclosures	1.	The general qualitative disclosures required under paragraph 10.1, including: <ul style="list-style-type: none"> • the portfolios covered by the IMA; and • methodology employed to comply with the 'Prudent Valuation Guidance' for positions held in the trading book.
	2.	Portfolios covered by the IMA which have been approved by the Bank for the purpose of computing the market risk capital charge.
	3.	For each portfolio covered by the IMA: <ul style="list-style-type: none"> • The characteristics of the models used; • A description of stress testing applied to the portfolio; and • A description of the approach used for back-testing/validating the accuracy and consistency of the internal models and modelling processes.
Quantitative Disclosures	4.	For trading portfolios under the IMA: <ul style="list-style-type: none"> • The high, mean and low VaR values over the reporting period and at period end; and • A comparison of VaR estimates with actual gains/losses experienced by the Islamic banks, with analysis of important 'outliers' in back-testing results.

Table 11: Operational Risk Disclosures

Type of Disclosure	Item	Disclosure Requirement
Qualitative Disclosures	1.	In addition to the general qualitative disclosure requirement in paragraph 10.1, the approach adopted by Islamic banks for its operational risk capital assessment.

Table 12: Equities (Disclosures for Banking Book Positions)

Type of Disclosure	Item	Disclosure Requirement
Qualitative Disclosures	1.	In addition to the general qualitative disclosures required under paragraph 10.1, the following shall be disclosed:- <ul style="list-style-type: none"> • Differentiation between holdings on which capital gains are expected and those held for other objectives including for relationship and strategic reasons; and • Policies on valuation and accounting of equity holdings in the banking book. This includes the accounting treatments and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices.
Quantitative Disclosures	2.	The types and nature of investments, including the amount that can be classified as: <ul style="list-style-type: none"> • Publicly traded; and • Privately held.
	3.	The cumulative realised gains (losses) arising from sales and liquidations in the reporting period.
	4.	Gains or Losses <ul style="list-style-type: none"> • Total unrealised gains/(losses)²⁵
	5.	An analysis of equity investments by appropriate equity groupings and risk weighted assets, consistent with the Islamic banks' risk management practices.

²⁵ Unrealised gains (losses) recognised under 'other comprehensive income'.

Table 13: Disclosure for Rate of Return Risk in the Banking Book (RORBB)

Type of Disclosure	Item	Disclosure Requirement
Qualitative Disclosures	1.	In addition to the general qualitative disclosures required under paragraph 10.1, the following shall be disclosed: <ul style="list-style-type: none"> The nature of the RORBB and key assumptions, including assumptions regarding loan prepayments and behaviour of non-maturity deposits, and frequency of the RORBB measurement.
Quantitative Disclosures	2.	The increase or decline in earnings and economic value (and any other relevant measure used by management) for upward and downward rate shocks which are consistent with shocks applied in the Islamic banks' stress test for measuring RORBB, broken down by various currencies where relevant. (Refer to Appendix X)

11. Disclosure on profit sharing investment accounts (PSIA) & Shariah Governance

11.1 The disclosures on PSIA and Shariah governance are intended to enable market participants to:

- (i) Assess the extent of risk sharing between Islamic banks/ windows as fund manager and investment account holders (IAH) as capital provider and management of displaced commercial risk²⁶ (DCR) by Islamic banks/ windows.
- (ii) To ensure transparency regarding Shariah compliance by Islamic banks/ windows.

11.2 The PSIA disclosure requirements shall apply to all Islamic banks/ windows that have PSIA which are eligible for the risk absorbent treatment. Nevertheless, PSIA arrangements between parent institutions and Islamic subsidiaries are excluded from the PSIA disclosure requirements. .

11.3 Islamic banks/ windows are required to disclose the information set out hereunder.

Table 14: Disclosure on Profit Sharing Investment Account (PSIA)²⁷

Type of Disclosure	Item	Disclosure Requirement
Qualitative Disclosures	1.	<p>The governance of the PSIA which includes:</p> <ul style="list-style-type: none"> • Description of the roles and responsibilities of various parties in ensuring the proper management of the IAH's funds; • Description of the risk management framework and its components which are in place to protect the interests of IAH; and • Description of the management of DCR, including among other things, the following: <ul style="list-style-type: none"> - Policies on forgoing shareholder's profits;

²⁶ Displaced commercial risk is defined as risk arising from assets funded by PSIA that is effectively transferred to Islamic banks' capital as a result of income smoothing practice.

²⁷ The disclosure requirement should be separately applicable to General Investment Account (GIA), Specific Investment Account (SIA) or other types of accounts that are eligible for risk absorbent.

Type of Disclosure	Item	Disclosure Requirement
		<ul style="list-style-type: none"> - Policies on the establishment of reserve funds for the purpose of smoothening the rate of return to IAH (e.g. Profit Equalisation Reserve (PER)). In relation to the PER, a description on the changes or movements of the PER (i.e. utilisation and provisioning) and basis for apportionment of PER between Islamic banks/ windows and IAH should also be provided; - Any other mechanisms adopted by Islamic banks in addressing DCR; - Discussion of factors affecting the rate of return and its effects on the pricing of contracts; and - Processes and systems to monitor and measure the factors that give rise to rate of return risk²⁸.
	2.	Policies on asset allocations which includes a description of any significant changes that may influence the investment decision of IAH.
Quantitative Disclosures	3.	Performance of each type of PSIA, expressed in terms of: <ul style="list-style-type: none"> • Return on assets (ROA) <ul style="list-style-type: none"> - Total gross income²⁹/Total amount of assets funded by PSIA. • Average net distributable income³⁰ ratio <ul style="list-style-type: none"> - Total average net distributable income/Total average amount of PSIA. • Declared rate of return. • Any other indicators used by management to assess the performance of PSIA.
	4.	Provisions and utilization of reserves and Islamic banks'/Islamic windows' profits for the purpose of smoothening the rate of return to IAH as part of the management of DCR: <ul style="list-style-type: none"> • Outstanding amount of PER at beginning and end of the reporting period (for both Islamic banks/ windows and IAH's portions³¹); • Amount of PER provided in the reporting period for the purpose of DCR breakdown by Islamic banks/ windows and IAH's portions; • Amount of PER written-back in the reporting period

²⁸ Rate of return risk is the potential impacts of market factors affecting rates of return on assets in comparison with the expected rates of return for investment account holders

²⁹ Definition of total gross income shall be based on the Rate of Return Framework.

³⁰ Definition of total net distributable income shall be based on the Rate of Return Framework.

³¹ Apportionment between Islamic banks/ Islamic windows and IAH should be based on:

- (a) Proportion of Islamic banks/ Islamic windows' fund and IAH's fund; or
- (b) Actual PER portion; or
- (c) Actual profit sharing ratio (PSR) between IAH and Islamic banks/ windows

Type of Disclosure	Item	Disclosure Requirement
		<p>for the purpose of DCR breakdown by Islamic banks/ windows and IAH's portions;</p> <ul style="list-style-type: none"> • Amount and percentage of profit of the reporting period appropriated/written-back to/from PER; • Ratio of PER-to-PSIA for each type of PSIA <ul style="list-style-type: none"> - Total amount of PER at the beginning/end of reporting period/ Outstanding amount of PSIA at the beginning/end of reporting period; and <p>(Refer to Appendix XI)</p> <ul style="list-style-type: none"> • Any other indicators used by Islamic banks to measure the practise of DCR. These include but not restricted to: <ul style="list-style-type: none"> - Comparison of actual profit sharing ratio (PSR) against the contractual PSR, in case of any variation.
	5.	<p>Risk measurement and quality of assets funded by PSIA</p> <ul style="list-style-type: none"> • Total amount of impaired assets • Individual and collective impairment provisions for financing funded by PSIA; and • Any other indicators used by Islamic banks to assess the risk measurement and quality of assets funded by PSIA

Table 15: Shariah Governance Disclosures³²

Type of Disclosure	Item	Disclosure Requirement
Qualitative Disclosures	1.	Description of the Shariah governance structure, systems, processes and controls employed for the purpose of ensuring Shariah compliance.
	2.	Description on rectification process of non-Shariah compliant income occurring during the year ³³
Quantitative Disclosures	3.	The amount of non-Shariah compliant income and the number of non-Shariah compliant events occurring during the year

³² Shariah compliance should be based on an individual Islamic bank/ window's Shariah committee interpretation, subject to rulings decided by Shariah Advisory Council (SAC) of the Bank and Securities Commission.

³³ Islamic banks/ windows are not required to disclose the nature of non-Shariah compliant events.

PART D APPENDICES

Appendix I. Illustrative Disclosure on Capital Adequacy under the Standardised Approach

Item	Exposure Class	Gross Exposures		Net Exposures	Risk Weighted Assets	Risk Weighted Assets Absorbed by PSIA	Total Risk Weighted Assets after effects of PSIA	Minimum Capital Requirement at 8%
		Long Position	Short Position					
1.0	Credit Risk							
	<i>On-Balance Sheet Exposures</i>							
	Sovereigns/Central Banks							
	Public Sector Entities							
	Banks, Development Financial Institutions & MDBs							
	Insurance Cos, Securities Firms & Fund Managers							
	Corporates							
	Regulatory Retail							
	Residential Mortgage							
	Higher Risk Assets							
	Specialised Financing/Investment							
	Equity Exposure							
	Securitisation Exposures							
	Other Assets							
Defaulted Exposures								
Total for On- Balance Sheet Exposures								
1.0	<i>Off-Balance Sheet Exposures³⁴</i>							
	OTC Derivatives							
	Off balance sheet exposures other than OTC derivatives or credit derivatives							
	Defaulted Exposures							
	Total for Off- Balance Sheet Exposures							
	Total On and Off- Balance Sheet Exposures							
2.0	Large Exposures Risk Requirement³⁵							
3.0	Market Risk							
	Benchmark rate Risk							
	Foreign Currency Risk							
	Equity Risk							
	Commodity Risk							
	Options Risk Inventory Risk							
4.0	Operational Risk							
5.0	Total RWA							

³⁴ Credit equivalent of off-balance sheet items.

³⁵ The amount in excess of the lowest threshold shall be reported under 'Gross Exposure' and 'Net Exposure'.

Appendix IIIa. Illustrative Disclosure on Rated Exposures³⁶ according to Rating by ECAIs³⁷

Exposure Class	Ratings of Corporates by Approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Rating & Investment Inc ³⁸	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off Balance-Sheet Exposures						
Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)						
Insurance Cos, Securities Firms & Fund Managers						
Corporates						
Total						

Exposure Class	Short term Ratings of Banking Institutions and Corporates by Approved ECAIs					
	Moodys	P-1	P-2	P-3	Others	Unrated
	S&P	A-1	A-2	A-3	Others	Unrated
	Fitch	F1+,F1	F2	F3	B to D	Unrated
	RAM	P-1	P-2	P-3	NP	Unrated
	MARC	MARC-1	MARC-2	MARC-3-	MARC-4	Unrated
	Rating & Investment Information Inc	a-1+, a-1	a-2	a-3	b,c	Unrated
On and Off Balance-Sheet Exposures						
Banks, MDBs and FDIs						
Rated Credit Exposures (using Corporate Risk Weights)						
Public Sector Entities (applicable for entities risk weighted based on their external ratings as corporates)						
Insurance Cos, Securities Firms & Fund Managers						
Corporates						
Total						

³⁶ Rated exposures shall also include exposures covered by guarantors which have been rated by ECAIs.

³⁷ Islamic banks should only disclose information on ECAIs which were used for assigning risk weights to the relevant exposures

³⁸ External credit assessments by Rating and Investment Information, Inc on Islamic debt securities are not recognised by the Bank in determining the risk weights for exposures to the asset classes listed in these appendices.

Appendix IIIb. Illustrative Disclosures on Rated Exposures according to Ratings by ECAIs

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to C	Unrated
On and Off Balance-Sheet Exposures Sovereigns and Central Banks							
Total							

Exposure Class	Ratings of Banking Institutions by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
On and Off Balance-Sheet Exposures Banks, MDBs and FDIs							
Total							

Appendix IIIc . Illustrative Disclosures on Securitisation according to Ratings by ECAIs

Exposure Class	Ratings of Securitisation by Approved ECAIs						
	Moody's	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A1 to A3	BBB1 to BBB3	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	Rating & Investment Inc	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ and below	Unrated
On and Off Balance-Sheet Exposures							
Securitisation							
Total							

Exposure Class	Ratings of Securitisation by Approved ECAIs				
	Moody's	P-1	P-2	P-3	Others or Unrated
	S&P	A-1	A-2	A-3	Others or Unrated
	Fitch	F1+, F1	F2	F3	Others or Unrated
	RAM	P-1	P-2	P-3	NP
	MARC	MARC-1	MARC-2	MARC-3	MARC-4
	Rating & Investment Inc	a-1+, a-1	a-2	a-3	b,c
On and Off Balance-Sheet Exposures					
Securitisation					
Total					

Appendix IV. Illustrative Disclosure on Credit Risk Mitigation

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
<i>Credit Risk</i>				
<i>On-Balance Sheet Exposures</i>				
Sovereigns/Central Banks				
Public Sector Entities				
Banks, Development Financial Institutions & MDBs				
Insurance Cos, Securities Firms & Fund Managers				
Corporates				
Regulatory Retail				
Residential Mortgages				
Higher Risk Assets				
Other Assets				
Specialised Financing/Investment				
Equity Exposure				
Securitisation Exposures				
Other Assets				
Defaulted Exposures				
Total for On- Balance Sheet Exposures				
<i>Off-Balance Sheet Exposures³⁹</i>				
OTC Derivatives				
Off balance sheet exposures other than OTC derivatives				
Defaulted Exposures				
Total for Off- Balance Sheet Exposures				
Total On and Off- Balance Sheet Exposures				

³⁹ Credit equivalent of off-balance sheet items

Appendix V. Illustrative Disclosure on Off Balance Sheet and Counterparty Credit Risk

Description	Principal Amount	Positive Fair Value of Derivative Contracts	Credit Equivalent Amount	Risk Weighted Assets
Direct Credit Substitutes				
Transaction related contingent Items				
Short Term Self Liquidating trade related contingencies				
Assets sold with recourse				
Forward Asset Purchases				
Obligations under an on-going underwriting agreement				
Commitment to buy back Islamic securities under Sales and Buy Back agreement transactions				
Foreign exchange related contracts				
One year or less				
Over one year to five years				
Over five years				
Benchmark rate related contracts				
One year or less				
Over one year to five years				
Over five years				
Equity related contracts				
One year or less				
Over one year to five years				
Over five years				
Gold and Other Precious Metal Contracts				
One year or less				
Over one year to five years				
Over five years				
Other Commodity Contracts				
One year or less				
Over one year to five years				
Over five years				
OTC Derivative transactions subject to valid bilateral netting agreements				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year				
Other commitments, such as formal standby facilities and credit lines, with an original maturity of up to one year				
Any commitments that are unconditionally cancelled at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness				
Unutilised credit card lines				
Off-balance sheet items for securitisation exposures				
Total				

Appendix VI. Illustrative Disclosure on Securitisation (Trading and Banking Book)

Underlying Asset	Total Exposure Securitised	Past due	Impaired	Gain and Losses Recognised during the period
TRADITIONAL SECURITISATION (indicate trading or banking book experience) Originated by the Banking Institution Exposure type (e.g. type of underlying assets) <i>sub-total</i>				
Securitisation of Third Party exposures where the Islamic bank acts only as a sponsor Exposure type (e.g. type of underlying assets) <i>sub-total</i>				
TOTAL (TRADITIONAL SECURITISATION)				

BNM/RH/GL 007-18	Islamic Banking & Takaful Department	Capital Adequacy Framework for Islamic Banks (CAFIB) - Disclosure Requirements (Pillar 3)	Page 32/36
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Appendix VII. Illustrative Disclosure: Summary of Current Year's Securitisation Activities (Trading and Banking Book)

Underlying Asset	Amount	Recognised Gains or Loss on Sale
Banking Book		
Residential mortgage		
Commercial loans		
Credit cards		
Trading Book		
Corporate bonds		
Total		

Appendix IX. Illustrative Disclosure on Securitisation under the Standardised Approach for Trading Book Exposures

Securitisation Exposures (On and Off-balance sheet Exposures)	Total Exposure Value of Positions Purchased or retained	Exposures subject to deduction	General Risk Charge	Specific Risk Charge	Risk Weighted Assets
TRADITIONAL SECURITISATION					
Originated by Third Party					
Exposure type (e.g. type of underlying assets)					
<i>sub-total</i>					
Originated by Banking Institution					
Exposure type (e.g. type of underlying assets)					
<i>sub-total</i>					
TOTAL (TRADITIONAL SECURITISATION)					

Appendix X. Illustrative Disclosure: Disclosure on Market Risk –Interest Rate Risk/ Rate of return Risk in the Banking Book

Type of Currency	Impact on Positions as at Reporting Period	
	(xxx basis points) Parallel Shift	
	Increase/(Decline) in Earnings	Increase/(Decline) in Economic Value
Currency A		
Currency B		
Currency...		
Total		

Appendix XI. Illustrative Disclosure on indicators of Displaced Commercial Risk (DCR)

Example: PER for SIA ¹

	RM	%
At beginning of reporting period⁴⁰	-	-
Islamic bank's portion	-	
IAH's portion	-	
Provision during the reporting period⁴¹	-	-
Islamic bank's portion	-	
IAH's portion	-	
Write-back during the reporting period	-	
Islamic bank's portion	-	
IAH's portion	-	
At end of the reporting period⁴⁰	-	-
Islamic bank's portion	-	
IAH's portion	-	

⁴⁰ Amount of PER and ratio of PER/PSIA

⁴¹ Amount of profit of the reporting period appropriated to PER and its percentage of total profit of the reporting period